

REMARKS OF SEN. JOHN HEINZ
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On Monday I was privileged to speak at the Chicago World Trade Conference. Its theme was "Can A Free Open Market Survive?" My answer was a clear yes, maybe, but.

The survival of free trade is a question on all our minds -- in Washington and Chicago -- in my hometown of Pittsburgh. Why do I say the answer is maybe, but? Because one free market cannot survive by itself. Because the survival of all will take a great deal of hard work and inspired leadership. This country has an abundance of both. But, at the present time, I believe we are neither working enough nor leading enough.

As an author of many elements of the 1979 Trade Agreements Act, I was optimistic that the Tokyo Round might indeed succeed in its purpose of further liberalizing world trade. But by mid-1981, I came to the conclusion that much of the hope for progress was illusory and that the world trading system was getting out of control. And, in addressing the National Foreign Trade Council here last November, I went so far as to propose a new Bretton Woods Conference to build new institutions and rules appropriate to a new trading environment.

The reason I made that proposal is best illustrated by one example that grew out of a hearing I held only two weeks ago.

In 1979 the Japanese announced they were relaxing their foreign investment laws, but their individual ministries retained authority to impose restrictions on foreign investment in Japanese companies if, among other things, national security would be affected. Thus far national security has been used to restrict investment in a cosmetic/pharmaceutical company and a silk cocoon producer.

There are many more examples that are public knowledge -- beef and citrus quotas and laborious testing requirements in Japan. Restrictions on transborder data flows in Europe. Canada's energy program. They all demonstrate that the basic principles of an open world trading system are being deeply and dangerously undermined. It may be the exception in the United States, but protectionism is the rule elsewhere in the world.

Congress has noticed and has been the first to react. Senator Jack Danforth of Missouri and I have both introduced reciprocal market access bills which will be the subject of a hearing next week. Congressmen Frenzel, Jones and Conable have introduced a similar bill on the House side.

Our bills are intended to provide the President with broad discretionary authority and flexible new tools to attack trade barriers. They do not force action. They do not require automatic sector-by-sector retaliation. They are intended to open others' doors, not shut ours. They will do so by giving the President the means to translate tough talk into tough action. As the nation with the most open developed economy in the world, there is little in the way of remaining barriers for us to barter with. Our leverage with those who want trade to be a one-way expressway to U.S. markets is our open market. We should demand a two-way street, and threatening to slow the traffic down is our best leverage.

There are those who say that reciprocity amounts to a denial of the most-favored-nation principle, that it "bilateralizes" trade. In my judgment, reciprocity means free trade and open markets not just for the U.S. but for all nations.

In thumbnail sketch, that is what reciprocity is all about -- providing leverage and a means to use it in order to expand open markets.

To achieve this, we need a national consensus on trade policy. Yet today, we have neither a trade policy on market access nor widespread agreement that we need one. The Treasury and State Departments appear opposed to reciprocity. Bill Brock's USTR staff appears divided. We need to get our act together. We need a consensus and we need help. We need your help to shape our policy. We need you, as practitioners of trade, to be deeply and urgently involved in helping answer what I believe is the central trade question of the 1980's.

The consequences of failure or delay could be catastrophic. It will mean more barriers and more protection abroad. It will mean larger U.S. trade deficits. It will mean sacrificing our competitive advantages. And it will fan the growing fires of protectionism in the Congress. Already stringent local content legislation for automobiles has gathered 124 House cosponsors. Other bills have been introduced to drastically increase tariffs on Japanese products.

Perhaps some Members merely want to protect jobs. But this alone would be a very inaccurate, misleading reading.

Congress is determined there be action to open up markets. And we should be. Whether it is responsible action may be up to you. Another reason why Congress is deeply troubled and under pressure to act is the fate of adjustment programs in this Administration. An integral, traditional part of this Nation's free trade policy has been the government's responsibility to assist the victims of import-induced changes, to give them time, or help, to adjust to changed circumstances. This has been a commitment of previous administrations, Republican and Democrat.

The Reagan Administration's policy has been to both eliminate trade adjustment assistance because of budget pressures and reject the International Trade Commission's "escape clause" recommendation as well.

Both these programs are buffers against protectionism. They are the quid pro quo that those affected have asked for -- and successive administrations have given -- in return for the support of trade liberalization measures such as the Tokyo Round. Removing adjustment programs gives affected industries nowhere to go but the Congress, and nothing to ask for but protection.

I have argued the case for reciprocity ... for strong measures ... to halt and reverse the rise of world protectionism. But even if we succeed, we, as a nation, still face the challenge of taking advantage of it.

Adlai Stevenson, my predecessor as Subcommittee Chairman, used to comment on our tendency to shoot ourselves in the foot when it comes to export policy. Accurate as that observation is, I have always been amazed at our ability to quickly reload and keep firing!

The real question, though, is if our aim is ever going to improve.

Every President since John F. Kennedy has commissioned studies on how to increase exports. And every study has made the same recommendations, over and over again -- under five different Presidents -- because so few of them have been implemented. Now, under the leadership of the Reagan Administration, we are finally acting.

Export trading company legislation, S.734, has passed the Senate, and I am optimistic it will pass the House and be signed into law in this Congress. It will create new exporters and help small ones expand by giving them access to bank capital. It will also protect exporters from uncertain antitrust enforcement.

On occasion this legislation has been the victim of some exaggerated claims, and I would like to put it back in the proper perspective. Export trading companies will not solve all our export problems. It will not make every small businessman an exporter. It will not create 47 new Mitsubishis. But it will ease entry into exporting for many. It will provide access to capital for many current exporters, and it will help change our traditionally insular attitude about overseas business by helping us see new opportunities and seize them. And that, it seems to me, is enough to ask of one bill.

Amendments to the Foreign Corrupt Practices Act (S.708) have also passed the Senate. I have personally urged Congressman Tim Wirth on the House side, to move ahead, and I am hopeful he will soon have his own proposal and proceed to mark it up.

On another front, we have enacted reforms in the tax treatment of Americans working abroad, Sections 911 and 913, that will solve the problems created by the 1976 Tax Reform Act.

I submit we have made a good start -- the best start in the last 20 years. If we succeed in enacting this body of legislation into law, we will have come a long way in allowing American companies to again compete in world markets.

One place where our aim has not improved, however, is the ExIm Bank. We have not seized the initiative at the OECD on eliminating subsidized financing. Last October the European community offered one-quarter of the loaf, and we declared victory, came home, and then raised our rates 2 percentage points higher than the competition.

Raising the Bank's interest rates higher and faster than everyone else is not using your leverage. It's dropping out of the race. It is unilateral disarmament in an export credit war -- albeit a war we do not want and did not start. The Bank has a statutory mandate to provide competitive financing. But in the past six months it has:

- increased direct credit rates to the point where American exporters are no longer even coming to the Bank to look for support. Half way through the year only 20 percent of the Bank's FY '82 credit limit has been committed and case volume is running at 50 percent of last year.

- refused to renew expiring preliminary commitments at the promised rate, thus removing the American bidder from the competition at the end of the process, after all the work has been done;

- refused to alter its terms sufficiently to match the competition, even when the match would be consistent with the international arrangement.

These are management decisions. There is also the funding story. Congress, to its credit, has consistently voted more money for the Bank than the President has requested. Despite that, the President's 1983 budget requests no more for the Bank than it did last year.

As you know, a non-competitive financing offer most often means loss of the sale and often permanent loss of market. If the government cannot end other nations' subsidies and will not match them, we force major losses abroad upon our companies here at home. We also force the outright transfer of business and technology abroad as industries move overseas or license their products in order to obtain competitive financing. Those, in the Administration and elsewhere, who complain about the movement of important American know-how and technology overseas should realize that our own policies accelerate this problem.

It is time to end these losses. I plan, shortly, to introduce new legislation that will help to make the Bank's directors and Bank financing more independent, and which will provide for a new medium term financing program. This may very well be controversial legislation. I cannot guarantee passage of every part. But we will focus the debate, clarify the issues, and demonstrate the Bank's importance to a U.S. economy that is increasingly tied to that of the rest of the world.

Legislation, however, whether for reciprocity or for export promotion, is not enough. It is not enough because it is only one nation's effort where many nations are involved, and the problems are inherently multilateral.

The upcoming GATT Ministerial this November provides an opportunity to broaden the circle of negotiations...to demand reciprocal access...to shift emphasis to services and investment ...to equip the GATT to deal with the problem of the 80's.

As I suggested in my NFTC speech last November, the GATT may not be up to the task. But the meeting is too timely and the issue too important to pass by.

Maintaining free market principles is harder with each passing month. But succeeding at that is as important to our long-term survival as is our national security policy and defense capability. You here today -- with your long experience in international trade -- you know better than anyone what we are up against. Our choice is to demonstrate leadership, or to economically wither and succumb.

Our situation reminds me of the Priest and the Rabbi who go to a prize fight together. As the boxers are about to go to the middle of the ring, the Rabbi notices one of the boxers crossing himself. Puzzled, he turns to the Priest and says, "Father what does that mean?" "Rabbi," says the Priest, "It doesn't mean a thing if you can't fight."

Today, I ask you to join with me and others to fight. I urge you to dedicate -- or rededicate -- yourselves to fighting world protectionism -- so that we can preserve not just our own economic strength, but the free market system that -- we know from experience -- will better all the peoples of the world.

Thank you.